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SUBJECT: NICARAGUA: AUSTR EISSENSTAT PROMOTES CAFTA-DR

REFS: A) MANAGUA 481, B) MANAGUA 450, C) MANAGUA 443, D) MANAGUA 338

Summary and Introduction

¶1. (U) During his April 21-23, 2008, visit to Nicaragua, Assistant U.S. Trade Representative for the Americas Everett Eissenstat underscored the importance of the United States - Central America - Dominican Republic Free Trade Agreement (CAFTA-DR). In meetings with officials from the Ministry of Trade, Industry, and Development (MIFIC) and the Free Trade Zone Commission (FTZC), he discussed CAFTA-DR implementation issues, especially those related to textile and apparel provisions. AUSTR Eissenstat also visited U.S. Agency for International Development (USAID) and U.S. Department of Agriculture (USDA) trade capacity building projects that help small farmers in Nicaragua sell their goods regionally and in the United States. AUSTR Eissenstat's participation in the inauguration of Cone Denim's textile mill is reported septel.

Nicaragua Benefiting from CAFTA-DR

¶2. (U) In a conversation with MIFIC Minister Orlando Solorzano, AUSTR Eissenstat highlighted Nicaraguan success to date in taking advantage of CAFTA-DR to increase exports to the United States. Solorzano agreed, noting that first quarter 2008 exports to the United States were 33% above first quarter 2007, while those to the rest of the world were up only 25%. Eissenstat asked Solorzano to take an active role in publicizing the importance of CAFTA-DR to promote exports and increase incomes for Nicaraguans. He also noted that the agreement is important to attracting investment such as that of Cone Denim (septel), which depend on strong institutions and a stable regulatory environment.

TIME FOR A REGIONAL DISCUSSION

¶3. (SBU) AUSTR Eissenstat suggested that the timing is right to hold a regional discussion among Trade Ministers on treaty administration, a point with which Minister Solorzano agreed. MIFIC Director General for International Trade Sonia Somarriba, also present at the meeting, suggested that it would be useful to explore ways to make rules of origins more flexible to link other trade agreements. She also suggested that technical discussions on agreement implementation are long overdue. AUSTR Eissenstat agreed, but noted that staggered implementation and of the agreement and difficulty in ensuring sufficient senior level participation among all countries had made identification of an appropriate date difficult.

Textiles and Apparel Take Center Stage

¶4. (SBU) Minister Solorzano highlighted Nicaraguan concern that the

textile and apparel sector faces contraction, thanks to CAFTA-DR's one-for-one provision for trousers, which requires the use of 30 million square meter equivalents (SMEs) of U.S. fabric in 2007 to qualify for tariff preference levels (TPLs) of 100 million SMEs for third-party fabric. In a separate meeting with AUSTR Eissenstat, CNZF President Alvaro Baltodano echoed Solorzano. CNZF Technical Director Carlos Zuniga claimed there simply is not enough fabric available at a reasonable price in the United States to fully comply with the one-for-one provision. Zuniga suggested that counting fabric made in Nicaragua from U.S. cotton may help. AUSTR Eissenstat responded that U.S. officials would seek to minimize the impact of the one-for-one shortfall as much as possible within the constraints of the agreement.

15. (SBU) For 2007, Zuniga believes the one-for-one shortfall will be about 10 million SMEs. He reported that Nien Hsing, a Taiwanese apparel company, is responsible for much of that shortfall; therefore, CNZF officials have told Nien Hsing they will bear the brunt of the TPL cut in 2008. Zuniga believes this announced cut in TPLs for third-party fabric is behind Nien Hsing's recently announced plans to close its factories in Nicaragua, eliminating 9,000 jobs, in addition to 5,000 already cut over the past several months.

16. (SBU) Note: Scott Vaughn, co-owner of Rovedes Apparel and President of the Nicaraguan Apparel and Textile Manufacturers' Association (ANITEC), told Econoff that Nien Hsing's departure has nothing to do with TPLs. Instead, he points to rising wages in the sector (up 36% in six months), harassment from government officials (who, for example, seek to collect import duties on trash and refuse to process tax refund checks), and political uncertainty (as recently as April 30, President Ortega publicly criticized Nien Hsing for paying low wages). End note.

Focus on Trade Capacity Building

17. (U) AUSTR Eissenstat visited two agricultural cooperatives receiving USAID-funded TCB assistance. One is using drip irrigation and greenhouse technologies to grow tomatoes, bell peppers, and eggplants for local supermarkets. That cooperative has begun growing several hot pepper varieties to be processed locally for use in Tabasco brand hot sauces. The second cooperative is growing papayas for sale in local supermarkets and eggplant for export to the United States. In both cases, farmers highlighted the importance of USAID TCB in providing financing, know-how, and marketing assistance to help them introduce new crops and develop new markets to increase earnings.

18. (SBU) AUSTR Eissenstat visited a laboratory unby the Ministry of Agriculture that inspects agricultural exports for contamination and pests. The director of the laboratory noted that the facility is woefully under-funded and lacks political support. The lab has benefited in the past from USDA-sponsored training and USDA-funded equipment. However, the director complained that the Ortega administration now requires that a government official seeking to travel outside the United States for training must receive permission from First Lady Rosario Murillo. In the past year, her staff and other Ministry of Agriculture employees have missed out on 26 separate training opportunities because the First Lady did not authorize their travel. AUSTR Eissenstat raised this issue in a subsequent meeting with Baltodano, noting that lack of timely approval for travel was impeding Nicaragua's ability to take full advantage of capacity building opportunities.

19. (SBU) During AUSTR Eissenstat's meeting with Minister Solorzano, MIFIC's Sonia Somarriba complained that CAFTA-DR's TCB mechanism is in desperate need of reform. In particular, she suggested that the CAFTA-DR TCB Committee be structured to directly address countries' National Action Plans. She said that Central American participants in the TCB process--not only Nicaraguan--feel deceived because they expected TCB to be additive in terms of resources. Making a pitch for more TCB funding, Minister Solorzano told AUSTR Eissenstat that CAFTA-DR is more than a simple commercial arrangement and is also a development instrument. AUSTR Eissenstat responded by noting our interest in ensuring the agreement works for all signatories, but he cautioned that TCB funding is constrained by the U.S. political process.

Investment Climate and Debt Default

¶10. (SBU) During his meeting with CNZF President Alvaro Baltodano, AUSTR Eissenstat raised concerns with the Nicaraguan Government's recent decision to stop payment on government bank bonds (CENIs), noting that such actions stifle private investment in Nicaragua (Refs A, B, and C). He also emphasized the importance of transparent governance and decisions making as key elements in attracting foreign investment.

Comment

¶11. (SBU) We continue to pursue a positive agenda with MIFIC to encourage their support for CAFTA-DR implementation. On May 28, we will co-host a forum on competitiveness with MIFIC that will serve as a warm-up for the Commerce Department's Americas' Competitiveness Forum in August. On TCB issues, with our encouragement MIFIC recently hosted the government's first interagency meeting on CAFTA-DR TCB, and we are working with MIFIC officials to review their TCB National Action Plan and provide substantive feedback. We are also working with Ministry of Agriculture officials to facilitate their participation in USDA-sponsored training, though political and bureaucratic hurdles remain.

¶12. (U) AUSTR Eissenstat has cleared this cable.